

Message Text

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ACTION EB-07

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TAGS: EFIN, ETRD, EIND, UR, US, COMECON

SUBJECT: U.S. BANKERS REPORT SOVIET RELUCTANCE TO ENTER

FORWARD MONEY MARKETS

SUMMARY: RECENT VISIT OF U.S. BANKERS DISCLOSED RELUCTANCE ON PART OF VNESHTORGBANK AND CEMA BANKS TO PARTICIPATE IN FORWARD MONEY MARKETS. THEY INFERRED THAT THIS REFLECTED HARD CURRENCY SHORTAGES AT THESE BANKS. ATTITUDES TOWARD FURTHER LENDING TO THE USSR IN THE FACE OF GROWING INDEBTEDNESS WERE DISCUSSED, AS WERE NOVEL TECHNIQUES BEING EMPLOYED BY EASTERN EUROPE TO COPE WITH WESTERN RESISTANCE TO FURTHER LENDING. END SUMMARY.

1. MARINE MIDLAND BANK FRANKFURT REPRESENTATIVE, MICHAEL WIEGAND, ACCOMPANIED BY C. NORMAL HANSEN, ASSISTANT VICE-PRESIDENT FROM THE NEW YORK OFFICE, RECENTLY REPORTED TO ECON/COMM COUNSELOR AND ECON OFFICER ON THEIR MID-SEPTEMBER TALKS WITH VNESHTORGBANK AND THE TWO CEMA BANKS--IBEC AND IIB. IN DISCUSSING BUSINESS PROSPECTS (PRIMARILY MONEY MARKET OPERATIONS) THEY SAID THEY FOUND THE MOSCOW BANKERS UNINTERESTED IN FORWARD FOREIGN EXCHANGE OPERATIONS, AND CONTRASTED THIS WITH PRACTICE OF FEW YEARS AGO WHEN THE MOSCOW BANKERS TRANSACTED "VERY LARGE SUMS" IN THE FORWARD MARKET. WIEGAND FELT THIS CONSERVATIVE APPROACH PROBABLY REFLECTS A LIMITED OFFICIAL USE

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SHORTAGE OF HARD CURRENCY.

2. THE U.S. BANKERS SAID THAT MARINE MIDLAND WAS STILL PERFECTLY WILLING TO PROVIDE CREDITS TO THE USSR IF THE PRICE WAS RIGHT--A REFERENCE TO THEIR PAST AND CONTINUING POLICY OF NOT SHAVING INTEREST RATES FOR THE USSR--AND THAT THEY PRESENTLY HAD A VERY LOW EXPOSURE WITH THE USSR (LESS ZM).

3. WEIGAND MENTIONED HIS BANK'S NEED FOR AGGREGATE DATA ON SOVIET INDEBTEDNESS--PARTICULARLY TO U.S. DOMESTIC BANKS AND THEIR FOREIGN BRANCHES. HE RECOGNIZED PROBLEMS IN ACQUIRING SUCH INFORMATION, HOWEVER, BECAUSE OF THE SENSITIVITY OF THE LARGE U.S. BANKS OVER PROPRIETARY INFORMATION. HE THOUGHT THAT THE FEDERAL RESERVE OR TREASURY COULD EASILY ACQUIRE AND DISSEMINATE SUCH INFORMATION IF THEY WISHED.

4. WIEGAND ALSO MENTIONED TWO NOVEL DEVELOPMENTS IN COPING WITH WESTERN RESISTANCE TO LENDING TO EASTERN EUROPE. IN A "PACKAGE APPROACH" BEING EMPLOYED, WESTERN BANKS INTERESTED IN PARTICIPATING IN A PARTICULAR LOAN TO ONE EAST EUROPEAN COUNTRY FIND THEMSELVES BEING PRESSURED TO ALSO PARTICIPATE IN ANOTHER LOAN FOR ANOTHER COUNTRY. HE ALSO MENTIONED A HUNGARIAN PLAN TO FLOAT A VARIABLE-RATE EURODOLLAR BOND.

5. COMMENT: WE TAKE THIS AS ANOTHER INDICATION THAT SOVIETS CAN STILL BORROW IN THE WEST IF THEY WISH BUT AT HIGHER RATES OF INTEREST THAN THEY HAVE BEEN ACCUSTOMED TO ACCEPT. CURRENT HARD CURRENCY CONSTRAINTS AND GROWING INDEBTEDNESS WILL OF COURSE WEIGH HEAVILY ON THE INCREASINGLY COST-CONSCIOUS SOVIETS.

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